Economics | Current Economic Trends

B.C. Economic Briefing

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central 1 Economics

Highlights

- March spending fell 1.1 per cent from February to $8.16 billion but rose 18 per cent year-over-year
- B.C. home sales set another monthly record in April, but momentum pulled back in a sign that the demand is moderating towards a more healthy pace;
- B.C. housing starts nearly halved in April after a huge March performance but the underlying trend remained elevated;
- Headline consumer price inflation in B.C. jumped in April; strongest print since December 2018, driven by increased gasoline and energy prices

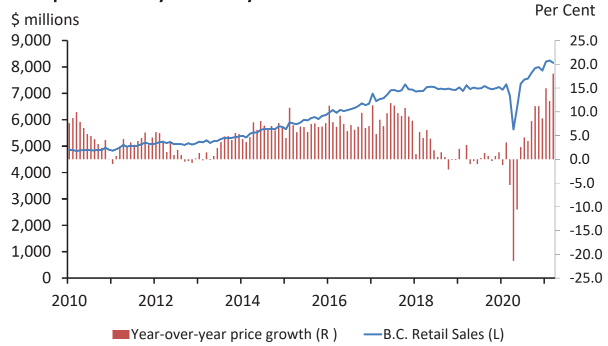
Retail spending inches back in March

B.C. retail spending slipped in March in advance of the province's "circuit breaker" to control the spread of the third wave of the pandemic. April is likely to slip as measures that took effect on March 30, including restriction of dine in service, limits in movement around the provinces, closure of Whistler Blackcomb and other restrictions temporarily slows consumer demand.

March spending fell 1.1 per cent from February to $8.16 billion but rose 18 per cent year-over-year. Nationally, sales surged 3.6 per cent from February and 23.7 per cent on a year-over-year basis. However, that 12-month growth rate is being amplified by base year effects as sales fell sharply in March and April of last year due to early pandemic restrictions. B.C. moved relatively early in its pandemic response. On a quarterly basis, sales rose 14.6 per cent from same-quarter 2020 exceeded the national increase of 10.6 per cent.

Based on our estimates, lower March sales in B.C. were due to a slip at motor vehicle and parts dealers of about one per cent after a strong gain in February. Food and beverage sales fell seven per cent, which likely reflects increased allocation of spending to dine out, although recent measures likely curtailed this in April. Gasoline sales fell three per cent from February but rose 18 per cent year-over-year on base effects and higher prices. Clothing and footwear sales decelerated from February but surged 80 per cent from a year ago, when retail spending started its collapse. With many workers still at home, clothing and footwear sales are still down 15 per cent from pre-pandemic levels.

Retail spending slips, 12-month growth amplified by base year factors



Source: Statistics Canada, Central 1 latest: Mar/21

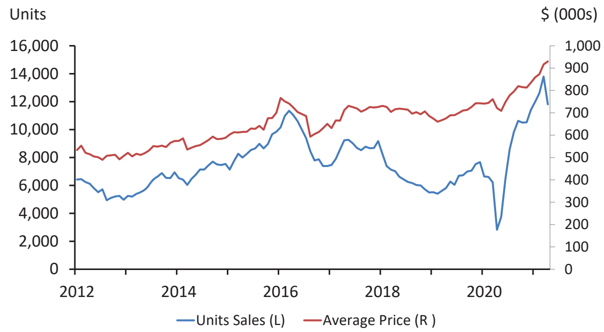
On the bright side, building and materials stores posted stronger sales as households continued to invest in their homes.

Broadly B.C. retail sales have recovered and are 11 per cent above pre-pandemic levels in B.C. Third wave restrictions will slow sales, but not to the same extent as other provinces like Ontario which have enacted stricter measures. Statistics Canada's preliminary estimate is for a 5.1 per cent decline nationally. As the pandemic wanes, we can expect sales growth to rotate back towards sectors like clothing and footwear, while household spending is likely to shift away from goods and towards services like travel and dining out, slowing overall retail spending.

Record home sales continue but momentum wanes -- price growth to slow

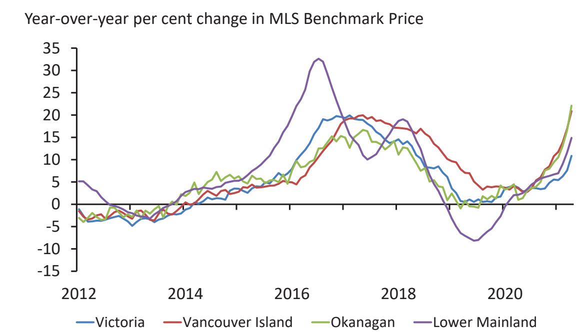
B.C. home sales set another monthly record in April, but momentum pulled back in a sign that the demand is moderating towards a more healthy pace as more buyers step back from an overheated market and widespread bidding wars, while pandemic demand driver may also be waning.

Home sales ease from historic highs as demand moderates, price gains continue



Source: CREA, Central 1 latest: Apr /21

Benchmark home prices up sharply across regions



Source: CREA, Central 1 latest: Apr /21

MLS® sales in the province remained red hot with a record sales count for April of 13,754 units which was more than four times year ago levels (up 314 per cent). While this partly reflects a base year effect due to the freeze in sales early in the pandemic, levels far exceeded the trailing 10-year average for April sales (excluding 2020) of 8,520 units and outpaced the previous record high set in April 2016 by six per cent.

That said, a decline in seasonally- adjusted sales of 14 per cent points to a pullback from peak sales with declines across the province. Combined real estate boards in the Lower Mainland – Southwest posted a sales drop of 17 per cent, with interior and northern B.C. sales down 13 and 18 per cent.

Higher mortgage contract rates and surging home values have eroded affordability, while satiation of pull-forward demand from younger households may have also slowed sales. Rapid vaccine deployment is also refocusing households to a future of less remote and work-from-anywhere arrangements.

Indicative of a tempering of broader market activity, new listings remained elevated. Year-over-year, new listing nearly tripled April 2020 due to base-year effects but slipped three per cent from March. Sellers continue to test strong market conditions by listing their homes. Nevertheless, tight market conditions prevail with a sales-to-active listings ratio above 50 per cent pointing to still simmering conditions favouring sellers, particularly in markets outside the Lower Mainland.

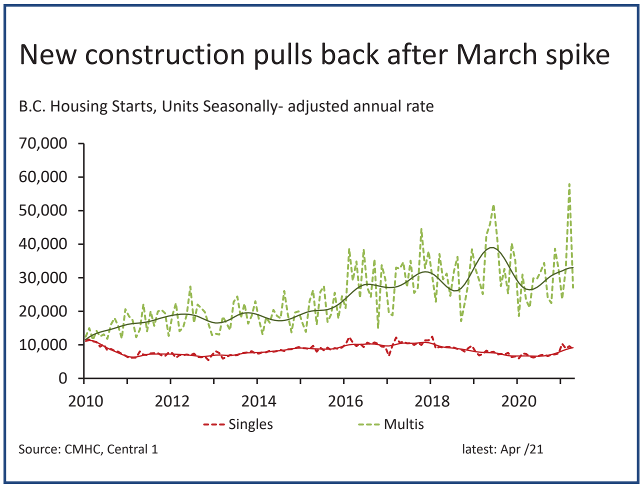
Average price growth slowed but remained strong at 1.5 per cent from March to $930,051 with year-over-year growth at a mind-boggling 29 per cent. While mixed across regions, levels have surged across the province. Constant-quality home price indices in available markets continued to surge with monthly growth of three per cent on Vancouver Island and the Okanagan, and 2.5 per cent on the Island. Year-over-year growth surpassed more than 20 per cent in the Okanagan and Vancouver Island (ex Victoria). Slower but still double-digit growth was observed in Victoria and the Lower Mainland.

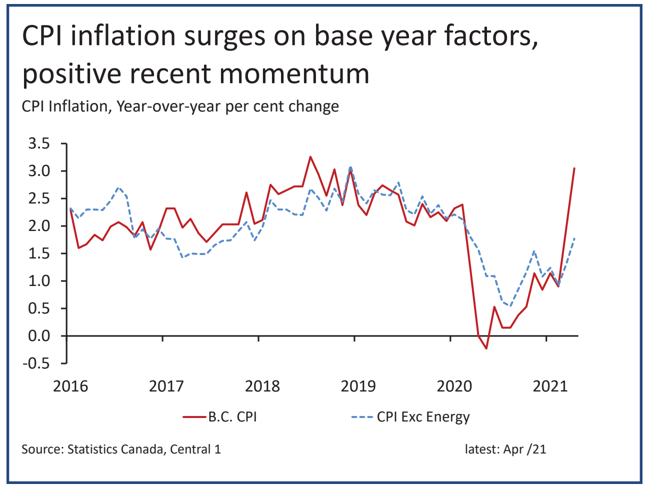
Easing demand patterns are expected to continue. More stringent mortgage stress tests effective June 1 will also temper purchasing power adding to this trend. Coupled with elevated listings market conditions will move toward balance and slow price gains. That said, relatively low supply means a significant price correction is unlikely.

Starts pull back after March surge

On the new construction front, B.C. housing starts nearly halved in April after a huge March performance but the underlying trend remained elevated. Annualized starts fell to a seasonally- adjusted 35,740 units from a 67,520 prior month pace. This comes as no surprise given a spike in March apartment starts and normal volatility in housing starts due to the impact of large- scale multi-family projects in any given month. Multi-family starts fell from an annualized pace of 57,900 units to 27,050 units while singles fell from 9,609 units to 8,909 units.

On a regional basis, starts declined across the province but led by the largest metro markets which is unsurprising given the drop in apartment starts. Metro Vancouver starts fell from a 45,000 unit pace to 19,200 units, while Victoria starts declined from 7,240 units to 4,230 units. Smaller urban market starts fell 10 per cent.





Despite the pullback, year-to-date starts soared nearly 50 per cent from 2020. This partly owes to base effects as early pandemic restrictions and concerns slowed construction a year ago. Nevertheless, starts are trending above a 40,000 unit pace. Robust resale market demand has contributed to increased pre-sale through over the past year, pushing more projects into construction phase while demand has increased for properties in smaller urban areas due to pandemic era preferences for space and recreational properties.

Demand for the latter is likely to wane as the pandemic moves towards a conclusion, while higher construction costs may also bite into demand for single- family homes. Rising immigration will continue to support demand in larger urban areas.

B.C. price inflation jumps aligns with national gain

Consistent with the national picture, headline consumer price inflation in B.C. jumped in April. Consumer prices rose 3.0 per cent on a 12-month basis compared to a 2.0 per cent reading March. This was the strongest print since December 2018. The increase was driven by a combination of base- year effects as the CPI index fell 0.8 per cent on a monthly basis in April 2020 driven largely by gasoline prices, while price levels also increased at a stronger than normal pace of 0.2 per cent from March.

The primary driver of inflation were gasoline and other energy prices. Year-over-year, gasoline prices surged 53 per cent year-over-year, compared to a 22 per cent increase in March. Base year effects and rising crude prices due to supply side constraints and higher pricing during the economic recovery are behind this.

Excluding energy prices, year-over-year CPI inflation was a more benign 1.8 per cent but price momentum was positive. Shelter costs accelerated to 3.5 per cent year-over-year led by a 4.7 per cent increase in owned accommodations. This owed to higher prices and construction costs as replacement costs surged to 11 per cent. Other notable gains included a jump in health and personal care services which rose two per cent from March, and 3.4 per cent on a year-over-year basis as health care costs surged, and clothing and footwear prices also picked up following a period of heavy discounting.

Higher inflationary pressure is likely transitory as base year effects will disappear by June, while many of the increases we have seen are likely one-off gains due to commodity price gains and recovery in some sectors. Persistent inflation will need a tighter labour market to be sustained.

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